

West Coast Power LLC

Making California Safe for New Generation Investment

**Joint Agency
Energy Action Plan Meeting**

**Sacramento, CA
March 23, 2005**

California Must Take Action in 2005

- California's electricity system is at a crossroads and with load growth and power plant retirements on the horizon, market reforms are urgently needed
- California has little time to get resource adequacy program up and running
- Further demand reduction and transmission additions are critical, but will not be enough to provide a return to stable market
- It is imperative that California rapidly create a safe climate for private investment in new generation
- Steps need to be taken now, so that new power plants get built in the future

Making California Safe for New Infrastructure Investment

- California must pursue market reforms that attract and sustain new competitively priced generation investment
- The solution are contained in the Energy Action Plan:
 - Further demand reduction and more energy efficiency
 - Transmission additions and upgrades
 - New generation construction
- California should continue to undertake as much of the first two as can be feasibly accomplished
- California must take steps that assure investors that, if they invest in efficient and needed generation resources, they can expect to earn an adequate return on invested capital

Blueprint for Electricity Market that will Encourage Generation Investment

- Universal Resource Adequacy Requirements (RAR) - Needs to apply to all LSEs including Municipal Utilities; penalties for noncompliance must be strong enough so that adequate resources procured in correct location well in advance of operating month
- Tradable Capacity Market - Centralized capacity market, administered by the CAISO, is needed to ensure that RAR is met at least cost, in a manner that supports retail competition, and to support the level of investment needed to ensure reliability; must have clear deliverability requirements
- Standard Capacity Product - Define a standard capacity product that represents physical generation capability linked to physical energy delivery

Blueprint for Electricity Market that will Encourage Generation Investment

- Conduct RFOs for Long-Term Power Procurement - Current one-year forward purchase obligation will not support investment in new generation; RAR must compel multi-year obligations; at least 15-year power purchase contracts needed to support generation investment
- Balanced Procurement Rules – Establish bid evaluation rules that truly levels the playing field between utility projects and IPP projects
- Eliminate FERC-Mandated Must Offer Obligation – CAISO's legitimate need to have resources available may be obtained through availability obligations incorporated into standardized capacity contracts

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Blueprint for Electricity Market that will Encourage Generation Investment

- Transition to Locational Energy Market and Improve Congestion Management – CAISO should use as a working model the experience of Eastern grid operators in energy and ancillary services markets which are run day-ahead and prices reflect locational value
- Resolve Uncertainty Regarding Core/Non-Core – California must reinstate retail choice for large noncore; continued delay in resolving this issue discourages LSE's from becoming fully resource adequate

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